

# Zimbabwe

## Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
<b>Type:</b>	♦ Defined-benefit		♦ Defined Contribution
<b>Participation:</b>	♦ Mandatory		♦ Voluntary
<b>Management:</b>	♦ Publicly-managed		♦ Privately-managed
<b>Financing:</b>	♦ PAYGO		♦ Fully funded
<b>Coverage:</b>	♦ All employed citizens and residents between 16- 65 years		♦ All employed citizens and residents between 16- 65 years
<b>Eligibility:</b>	♦ Age 60 for both men and women		♦ Age 65 for both men and women

## Challenges Facing Pension System

- ☐ Demographic shifts
- ☐ High government expenditure
- ☐ Poor fund management
- ☐ Economic instability

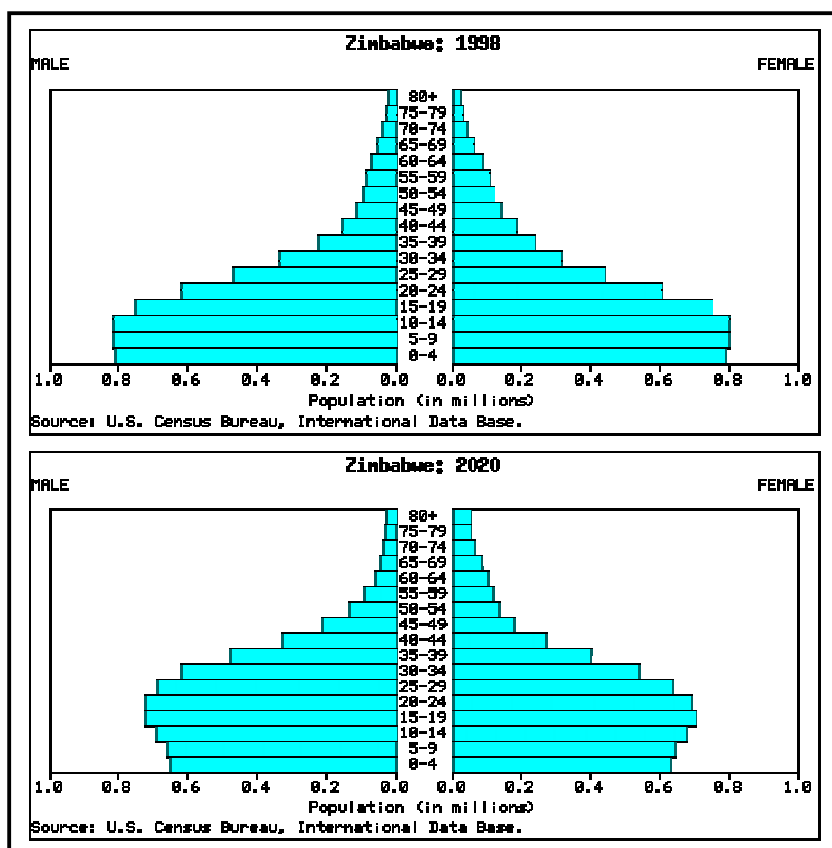
## Summary of Current Pension System

The current public pension system in Zimbabwe was introduced in October 1994. Known as the National Social Security Scheme (NSSS), this system incorporates death and invalidity benefits along with retirement benefits. The pension system covers all residents, but does not provide benefits for private household employees or civil servants.

Benefit eligibility occurs for both men and women at 60 years who have contributed at least 120 months. Individuals may defer retirement until 65 years at which point retirement is mandatory. Workers in arduous conditions or those unable to work may choose early retirement at age 55. Mandatory contributions to the pension system are identical for both employers and employees: employers pay 3 percent of payroll and employees contribute 3 percent of earnings. The maximum earnings for contribution purposes is Z\$4,000 per month.

The amount of the pension benefit calculated based 1.33 percent of monthly earnings multiplied by the number of years of contributions, up to 30 years. An additional 1-percent of monthly earnings multiplied by the number of contributions over 30 years.

A private pension system (Pillar III) also provides retirement benefits and is funded by both employer and employee contributions. The provision of benefits by private companies may be lump-sum provident funds or registered pension funds.



For pension funds, employees pay a minimum of 5.0 percent and up to a maximum of 7.5 percent contribution toward private accounts, which accrue at an annual rate of approximately 2 percent of final five-year average salary. In addition, periodic adjustments are made for inflation.

The Registrar of Pension Funds controls the private system and all private funds must register prior to operation. Registrar regulations are strict and require funds to maintain government or semi-government stock, approximately 55 percent of assets.

Since the introduction of the revised NSSS contributions to the private system have lowered, and pension benefits have also decreased.

SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	11,044	12,162
Life Expectancy at Birth (Years)	39.16	43.41
Total Fertility Rate (Child Born per Woman)	3.85	2.19
Age Dependency Ratio (percent)	7.8	6.8
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	2.2	0.4

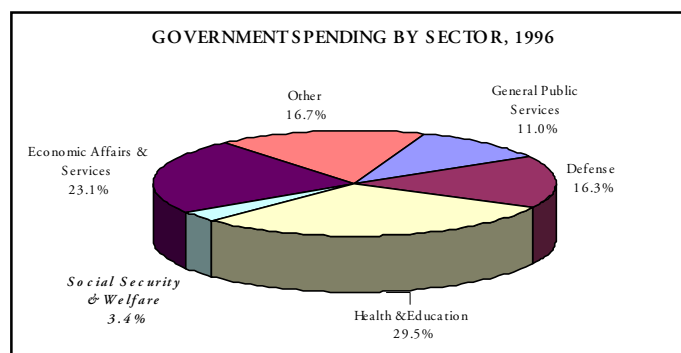
Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) <sup>1</sup>	24.7
GNP Average Annual Growth Rate, 1995-1996 (percent) <sup>1</sup>	8.1
GNP Per Capita (in PPP) <sup>1</sup>	\$2,200
Inflation Rate (percent) <sup>2</sup>	21.4
Labor Force Participation Rate (percent) <sup>3</sup>	46.1
Unemployment Rate (percent) <sup>4</sup>	45.0

Source: <sup>1</sup>World Bank; <sup>2</sup>IMF; <sup>3</sup>International Labour Office; <sup>4</sup>U.S. Central Intelligence Agency.

Pension	1997
System Dependency Ratio, 1996	n/a
Employee Contributions for Pensions (percent of earnings)	3.0
Employer Contributions for Pensions (percent of payroll)	3.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP	n/a

Source: International Group Program.



## Challenges Facing Pension System

Within the last two years there has been minor improvements in the Zimbabwean economy with GDP increasing from -0.3 percent in 1995 to 7.0 percent in 1996. This surge in GDP resulted primarily, from an increase in agricultural growth of approximately 40 percent. All sectors of the economy did not experience growth. There was a 4 percent increase in the manufacturing sector and growth levels at -0.2 percent in the mining industry. Unemployment levels remained high, approximately 45 percent in 1996 and the inflation rate increased to 21.7 percent for the same year.

The country's economic instability continues to create a burden on the provision of retirement benefits and with an anticipated population growth rate of approximately 35.2 percent between 1980 and 2000, government expenditure on pension benefits is likely to increase.

Furthermore, pension and provident fund regulation has been a source of concern. In Zimbabwe, pension fund administration was provided by insurers or in some instances insurance brokers, resulting in poor management and misappropriation of funds.

## Pension Reform Efforts

Few pension reform efforts have been initiated in Zimbabwe to-date. A new regulatory body financed by a levy imposed on pension funds has been proposed and is waiting for legislative approval. To further improve pension and provident fund regulation, new amendments were introduced in December 1997, increasing the charges requested by the registrar prior to registering funds. In addition, the regulations provide more detail regarding the screening process and the fund provide information on its principal officer or acting fund administrator.

The government also approved a tax-free monthly pension for life for ex-military personnel. The **Z\$2,000** per month benefit is expected to cost the government in excess of **Z\$1.2** billion and will be distributed in December 1998 in addition to a lump sum gratuity of \$50,000. In addition, the Registrar of Pension and Provident Funds approved a maximum increase of 25 percent in retiree benefits that took effect in 1998.

The Zimbabwean Ministry of Finance is currently reviewing proposals concerning the process of pension fund taxation drafted by the Department of Taxes. The Zimbabwe Association of Pension Funds and the Life Offices Association submitted additional comments. If these proposals are approved, one of the changes will include a 15 percent tax levied on pension fund investment income.

## Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		✓
Formulation of proposals	✓		✓
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			